Lejwe Le Putswa Development Agency (Pty) Ltd
Annual Financial Statements
for the year ended 30 June 2011

General Information

Accounting Officers	
	F.C Portgieter - Qcubule (Chairperson)
	M. E Ntsoane - Deputy Chairperson
	M. L De Hart
	M.E Mokoena
	M M Khaeane
	N C Siqwala
Registered office	Lejweputswa District Municipality Offices Tempest Road Welkom 9460
Postal address	P.O Box 2163 Welkom 9460
Auditors	Auditor General of South Africa Chartered Accountants (S.A)
Secretary	Mr L I Mokgatlhe

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officers has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality entity as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality entity and place considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality entity and all employees are required to maintain the highest ethical standards in ensuring the municipality entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality entity is on identifying, assessing, managing and monitoring all known forms of risk across the municipality entity. While operating risk cannot be fully eliminated, the municipality entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality entity's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the municipality entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality entity is wholly dependent on the Lejwe Le Putswa Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Lejwe Le Putswa Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality entity.

Although the are primarily responsible for the financial affairs of the municipality entity, they are supported by the municipality entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality entity's annual financial statements. The annual financial statements have been examined by the municipality entity's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 24, which have been prepared on the going concern basis, were approved by the on 30 November 2011 and were signed on its behalf by:

Accounting Officer

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Receivables from exchange transactions	5	32,316	3,800
Cash and cash equivalents	6	3,300,854	-
		3,333,170	**3,800**
Non-Current Assets			
Property, plant and equipment	3	41,803	71,645
Intangible assets	4	17,867	-
		59,670	**71,645**
Total Assets		**3,392,840**	**75,445**
Liabilities			
Current Liabilities			
Payables from exchange transactions	8	409,630	-
Taxes and transfers payable (non-exchange)		417,794	230,519
		827,424	**230,519**
Total Liabilities		**827,424**	**230,519**
Net Assets		**2,565,416**	**(155,074)**
Net Assets			
Share capital	7	100	100
Accumulated surplus		2,565,316	(155,174)
Total Net Assets		**2,565,416**	**(155,074)**

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue	9	4,647,959	1,434,226
Operating expenses		(1,985,105)	(1,534,032)
Operating surplus (deficit)		**2,662,854**	**(99,806)**
Interest received	13	95,507	53,787
Finance costs	16	(37,181)	(16,607)
Surplus (deficit) for the year		**2,721,180**	**(62,626)**

Statement of Changes in Net Assets

Figures in Rand	Share capital	Accumulated surplus	Total net assets
Opening balance as previously reported	100	(93,758)	(93,658)
Adjustments			
Prior year adjustments	-	1,210	1,210
Balance at 01 July 2009 as restated	**100**	**(92,548)**	**(92,448)**
Changes in net assets			
Deficit for the year	-	(62,626)	(62,626)
Total changes	-	(62,626)	(62,626)
Opening balance as previously reported	100	(193,044)	(192,944)
Adjustments			
Prior year adjustments	-	37,180	37,180
Balance at 01 July 2010 as restated	**100**	**(155,864)**	**(155,764)**
Changes in net assets			
Surplus for the year	-	2,721,180	2,721,180
Total changes	-	2,721,180	2,721,180
Balance at 30 June 2011	**100**	**2,565,316**	**2,565,416**

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Grants		4,613,662	1,434,226
Interest income		95,507	53,787
		4,709,169	1,488,013
Payments			
Employee costs		(905,578)	(54,611)
Suppliers		(416,329)	(1,656,522)
Finance costs		(37,181)	(16,607)
		(1,359,088)	(1,727,740)
Net cash flows from operating activities	19	**3,350,081**	**(239,727)**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(29,736)	-
Purchase of other intangible assets	4	(19,491)	-
Prior year adjustments		-	235,919
Net cash flows from investing activities		**(49,227)**	**235,919**
Net increase/(decrease) in cash and cash equivalents		**3,300,854**	**(3,808)**
Cash and cash equivalents at the beginning of the year		-	3,808
Cash and cash equivalents at the end of the year	6	**3,300,854**	**-**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Furniture and fixtures	6 years
Office equipment	6 years
IT equipment	3 years

Accounting Policies

1.1 Property, plant and equipment (continued)

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.2 Intangible assets

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality entity; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	3 years

1.3 Financial instruments

Classification

The entity classifies financial assets and financial liabilities into the following categories:
- Loans and receivables
- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

The entity complies with the requirements of IRFS 7

Accounting Policies

1.3 Financial instruments (continued)

Initial recognition and measurement

Financial instruments are recognised initially when the municipality entity becomes a party to the contractual provisions of the instruments.

The municipality entity classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets.

For financial instruments which are not at fair value through surplus or deficit, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method.

Impairment of financial assets

At each end of the reporting period the municipality entity assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality entity, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Accounting Policies

1.3 Financial instruments (continued)

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

1.4 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.5 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Accounting Policies

1.5 Impairment of non-cash-generating assets (continued)

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality entity.

1.6 Share capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality entity after deducting all of its liabilities.

1.7 Employee benefits

Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.
The municipal entity treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a payable in the Statement of Financial Position. The municipality entity recognises the expected cost of bonuses only when the municipality entity has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

1.8 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality entity assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Accounting Policies

1.8 Revenue from non-exchange transactions (continued)

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality entity;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.9 Expenditures.

Expenses including losses are decreases in economic benefits or service potential during the reporting period, in the form of outflows or consumption of assets or in occurrences of liabilities that result in decreases in net assets other than those relating to distributions to owners. Such expenditures are recognised in the period in which they occur and not when cash or equivalent is disbursed.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

GRAP 23: Revenue from Non-exchange Transactions

Revenue from non-exchange transactions arises when an entity receives value from another entity without directly giving approximately equal value in exchange. An asset acquired through a non-exchange transaction shall initially be measured at its fair value as at the date of acquisition.

This revenue will be measured at the amount of increase in net assets recognised by the municipality entity.

An inflow of resources from a non-exchange transaction recognised as an asset shall be recognised as revenue, except to the extent that a liability is recognised for the same inflow. As an entity satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it will reduce the carrying amount of the liability recognised as recognise an amount equal to that reduction.

It is unlikely that the standard will have a material impact on the municipality entity's annual financial statements.

GRAP 24: Presentation of Budget Information in the Financial Statements

Subject to the requirements of paragraph .19, an entity shall present a comparison of the budget amounts for which it is held publicly accountable and actual amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with Standards of GRAP. The comparison of budget and actual amounts shall present separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis; and
- by way of note disclosure, an explanation of material differences between the budget for which the municipality entity is held publicly accountable and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements, and a cross reference to those documents is made in the notes.

Where an entity prepares its budget and annual financial statements on a comparable basis, it includes the comparison as an additional column in the primary annual financial statements. Where the budget and annual financial statements are not prepared on a comparable basis, a separate statement is prepared called the ‘Statement of Comparison of Budget and Actual Amounts’. This statement compares the budget amounts with the amounts in the annual financial statements adjusted to be comparable to the budget.

A comparable basis means that the budget and annual financial statements:

- are prepared using the same basis of accounting i.e. either cash or accrual;
- include the same activities and entities;
- use the same classification system; and
- are prepared for the same period.

GRAP 20: Related Party Disclosure

GRAP 20 specifically excludes any consideration provided to key management personnel solely as a reimbursement for expenditure incurred by those individuals for the benefit of the reporting entity.

GRAP 21: Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

An municipality entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, an entity estimates the recoverable service amount of the asset.

The present value of the remaining service potential of a non-cash-generating asset is determined using one of the following approaches:

- Depreciated replacement cost approach
- Restoration cost approach

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Service units approach

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

An municipality entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, an entity estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

GRAP 26: Impairment of cash-generating assets

Cash-generating assets are those assets held by an municipality entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

An entity assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, an municipality entity estimates the recoverable amount of the asset. When estimating the value in use of an asset, an municipality entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and an municipality entity applies the appropriate discount rate to those future cash flows.

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss. An impairment loss is recognised immediately in surplus or deficit. Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an municipality entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, an entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

An municipality entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, an municipality entity estimates the recoverable amount of that asset.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

GRAP 104: Financial Instruments

The standard prescribes recognition, measurement, presentation and disclosure requirements for financial instruments. Financial instruments are defined as those contracts that results in a financial asset in one municipality entity and a financial liability or residual interest in another municipality entity. A key distinguishing factor between financial assets and financial liabilities and other assets and liabilities, is that they are settled in cash or by exchanging financial instruments rather than through the provision of goods or services.

One of the key considerations in initially recognising financial instruments is the distinction, by the issuers of those instruments, between financial assets, financial liabilities and residual interests. Financial assets and financial liabilities are distinguished from residual interests because they involve a contractual right or obligation to receive or pay cash or another financial instrument. Residual interests entitle an municipality entity to a portion of another municipality entity's net assets in the event of liquidation and, to dividends or similar distributions paid at management's discretion.

In determining whether a financial instrument is a financial asset, financial liability or a residual interest, an municipality entity considers the substance of the contract and not just the legal form.

Where a single instrument contains both a liability and a residual interest component, the issuer allocates the instrument into its component parts. The issuer recognises the liability component at its fair value and recognises the residual interest as the difference between the carrying amount of the instrument and the fair value of the liability component. No gain or loss is recognised by separating the instrument into its component parts.

Financial assets and financial liabilities are initially recognised at fair value. Where an municipality subsequently measures financial assets and financial liabilities at amortised cost or cost, transactions costs are included in the cost of the asset or liability.

The transaction price usually equals the fair value at initial recognition, except in certain circumstances, for example, where interest free credit is granted or where credit is granted at a below market rate of interest.

Concessionary loans are loans either received by or granted to another municipality entity on concessionary terms, e.g. at low interest rates and flexible repayment terms. On initial recognition, the fair value of a concessionary loan is the present value of the agreed contractual cash flows, discounted using a market related rate of interest for a similar transaction. The difference between the proceeds either received or paid and the present value of the contractual cash flows is accounted for as non-exchange revenue by the recipient of a concessionary loan in accordance with Standard of GRAP on Revenue from Non-exchange Revenue Transactions (Taxes and Transfers), and using the Framework for the Preparation and Presentation of Financial Statements (usually as an expense) by the grantor of the loan.

Financial assets and financial liabilities are subsequently measured either at fair value or, amortised cost or cost. An municipality measures a financial instrument at fair value if it is:

- a derivative;
- a combined instrument designated at fair value, i.e. an instrument that includes a derivative and a non-derivative host contract;
- held-for-trading;
- a non-derivative instrument with fixed or determinable payments that is designated at initial recognition to be measured at fair value;
- an investment in a residual interest for which fair value can be measured reliably; and
- other instruments that do not meet the definition of financial instruments at amortised cost or cost.

Derivatives are measured at fair value. Combined instruments that include a derivative and non-derivative host contract are accounted for as follows:

- Where an embedded derivative is included in a host contract which is a financial instrument within the scope of this Standard, an entity can designate the entire contract to be measured at fair value or, it can account for the host contract and embedded derivative separately using GRAP 104. An municipality is however required to measure the entire instrument at fair value if the fair value of the derivative cannot be measured reliably.
- Where the host contract is not a financial instrument within the scope of this Standard, the host contract and embedded derivative are accounted for separately using GRAP 104 and the relevant Standard of GRAP.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Financial assets and financial liabilities that are non-derivative instruments with fixed or determinable payments, for example deposits with banks, receivables and payables, are measured at amortised cost. At initial recognition, an municipality can however designate such an instrument to be measured at fair value.

An municipality entity can only measure investments in residual interests at cost where the fair value of the interest cannot be determined reliably.

Once an municipality entity has classified a financial asset or a financial liability either at fair value or amortised cost or cost, it is only allowed to reclassify such instruments in limited instances.

An entity derecognises a financial asset, or the specifically identified cash flows of an asset, when:

- the cash flows from the asset expire, are settled or waived;
- significant risks and rewards are transferred to another party; or
- despite having retained significant risks and rewards, an municipality entity has transferred control of the asset to another municipality entity.

An municipality entity derecognises a financial liability when the obligation is extinguished. Exchanges of debt instruments between a borrower and a lender are treated as the extinguishment of an existing liability and the recognition of a new financial liability. Where an municipality entity modifies the term of an existing financial liability, it is also treated as the extinguishment of an existing liability and the recognition of a new liability.

An municipality entity cannot offset financial assets and financial liabilities in the statement of financial position unless a legal right of set-off exists, and the parties intend to settle on a net basis.

GRAP 104 requires extensive disclosures on the significance of financial instruments for an municipality's statement of financial position and statement of financial performance, as well as the nature and extent of the risks that an municipality is exposed to as a result of its annual financial statements. Some disclosures, for example the disclosure of fair values for instruments measured at amortised cost or cost and the preparation of a sensitivity analysis, are encouraged rather than required.

GRAP 104 does not prescribe principles for hedge accounting. An municipality entity is permitted to apply hedge accounting, as long as the principles in IAS 39 are applied.

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Furniture and fixtures	149,334	(137,751)	11,583	156,042	(118,017)	38,025
Office equipment	137,253	(127,790)	9,463	136,551	(102,941)	33,610
IT equipment	60,884	(40,127)	20,757	56,949	(56,939)	10
Total	**347,471**	**(305,668)**	**41,803**	**349,542**	**(277,897)**	**71,645**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Disposals**	**Depreciation**	**Impairment loss**	**Total**
Furniture and fixtures	38,025	-	-	(25,948)	(494)	11,583
Office equipment	33,610	-	-	(23,981)	(166)	9,463
IT equipment	10	29,736	(7,157)	(1,832)	-	20,757
	71,645	**29,736**	**(7,157)**	**(51,761)**	**(660)**	**41,803**

Figures in Rand	2011	2010

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Transfers	Other changes, movements	Depreciation	Total
Furniture and fixtures	-	38,025	-	-	38,025
Office equipment	119,983	(38,025)	937	(49,285)	33,610
IT equipment	2,273	-	(2,263)	-	10
	122,256	**-**	**(1,326)**	**(49,285)**	**71,645**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality entity. The furniture and fittings were previously disclosed as part of office equipment.

4. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	22,911	(5,044)	17,867	3,420	(3,420)	-

Reconciliation of intangible assets - 2011

	Opening balance	Additions	Amortisation	Total
Computer software, other	-	19,491	(1,624)	17,867

Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software, other	3,420	(3,420)	-

5. Receivables from exchange transactions

	2011	2010
Employee costs in advance	910	-
Prepaid expenses	19,960	-
Interest receivable	11,446	3,800
	32,316	**3,800**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2011	2010
Bank balances	3,300,854	-

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

6. Cash and cash equivalents (continued)

The agency had the following bank accounts

Account description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
Nedbank - Account Type - Current account	648,359	-	3,808	648,359	-	3,808
Nedbank - Account Type - Call deposit	2,652,495	-	-	2,652,495	-	-
Total	**3,300,854**	**-**	**3,808**	**3,300,854**	**-**	**3,808**

7. Share capital

	2011	2010
Authorised		
1000 Ordinary shares of R1.00 each	1,000	1,000
Issued		
Ordinary	100	100

8. Payables from exchange transactions

	2011	2010
Other payables	367,753	-
Accrued leave pay	41,877	-
	409,630	**-**

9. Revenue

	2011	2010
Grant from Lejwe le Putswa District Municipality	2,000,000	-
Grant from IDC	2,647,959	1,434,226
	4,647,959	**1,434,226**

The amount included in revenue arising from non- exchanges of goods or services are as follows:

	2011	2010
Grant received from Lejweleputswa District Municipality	2,000,000	-
Income from agency services	2,647,959	1,434,226
	4,647,959	**1,434,226**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. General expenses

Accounting fees	65,949	241,501
Advertising	116,253	9,085
Auditors remuneration	277,473	110,261
Bank charges	1,885	749
Cleaning	625	-
Computer expenses	1,699	-
Congress and delegations	80,623	7,559
Consulting and professional fees	58,395	226,821
Delivery expenses	334	-
Entertainment	6,563	1,969
Festival	-	775,000
Insurance	-	10,431
Lease rentals on operating lease	42,315	-
Printing and stationery	16,968	-
Staff welfare	25,308	-
Subsistence and travelling	32,569	1,283
Sundry expense	3,823	12,915
Telephone and fax	11,620	6,245
Training	28,832	-
Transport and freight	5,500	-
	776,734	**1,403,819**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010
11. Employee related costs		
Basic	575,184	54,611
Leave pay provision charge	39,501	-
	614,685	**54,611**
Remuneration of chief exective officer		
Annual Remuneration	248,000	-
Director - Potgieter - Gqubule F C		
Remuneration	80,421	-
Director - Mokoena M E		
Remuneration	38,648	-
Director - Siqwala N.C		
Remuneration	38,023	-
Director - Ntsoane M E		
Remuneration	51,215	-
Director - De Hart M L		
Remuneration	38,023	-
Director - Khaeane M M		
Remuneration	38,723	-
12. Debt impairment		
Debt impairment	-	26,317
13. Interest received		
Interest revenue		
Bank	62,941	-
Interest on payables discounted	32,566	53,787
	95,507	**53,787**
14. Depreciation and amortisation		
Property, plant and equipment	51,069	49,285
Intangible assets	1,624	-
	52,693	**49,285**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

15. Impairment of assets

Impairments		
Property, plant and equipment	660	-

16. Finance costs

Interest on unwinding of payables	37,181	16,607

17. Auditors' remuneration

Fees	277,473	110,261

18. Operating lease

The agency has entered into a lease of office building for a period of two years, with an option to renew for two years. The minimum lease payments payable in the future are as follows.

- Not later than one year R122 954
- Later than one year and not later than five years R 86 227

19. Cash generated from (used in) operations

Surplus (deficit)	2,721,180	(62,626)
Adjustments for:		
Depreciation and amortisation	52,693	49,285
Loss on disposal of assets	7,157	-
Impairment deficit	660	-
Debt impairment	-	26,317
Movements in provisions	-	(48,769)
Changes in working capital:		
Receivables from exchange transactions	(28,516)	26,318
Consumer debtors	-	(26,317)
Payables from exchange transactions	409,632	-
Taxes and transfers payable (non exchange)	187,275	(203,935)
	3,350,081	**(239,727)**

20. Related parties

Relationships
Lejweleputsa District Municipality is 100% shareholder of the entity

Related party transactions

Income received from related party		
Lejweleputswa District Municipality	2,000,000	1,434,226

21. Prior period errors

In the past the PAYE was deducted from the employees of the company . However, this money was never paid over to South African Revenue Services and furthermore it was not accounted for in the books of the organisation.
In the prior year the municipality entity did not consider the discounting impact of taxes and transfer payables, the adjustment has been effected in the current year, the previous year ammendments has been effected accordingly.

A printer with a useful life of 6 years was incorrectly depreciated over a period of 3 years. This was corrected in the current year.

The correction of the error(s) results in adjustments as follows:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

21. Prior period errors (continued)

Statement of financial position

Current liabilities (decreased) or increased by	-	233,384
Accumulated surplus increased or (decreased) by	-	(233,384)
Interest received increased by	-	(53,787)
Interest paid increased by	-	16,607
Taxes and transfers payable (non exchange) decreased by	-	37,180
Depreciation increased by	-	518
Accumulated depreciation decreased by	-	691
Accumulated surplus increased by	-	1,209

22. Sensitivity analysis

The entity complies with the requirements of IRFS 7 in accounting for its financial instruments and the related disclosures. As at year, the entity has no major exposures to risk related to the following financial instruments:

- Foreign exchange risk
- Major Interest rate risk

The entity has thus, not found a need for now to perform a sensitivity analysis.

Detailed Income statement

Figures in Rand	Note(s)	2011	2010
Revenue			
Grant from Lejwe Le Putswa District Municipality		2,000,000	-
Grant from IDC		2,647,959	1,434,226
Interest received - investment	13	95,507	53,787
Total Revenue		**4,743,466**	**1,488,013**
Expenditure			
Personnel	11	1,147,738	54,611
Depreciation and amortisation	14	52,693	49,285
Impairment loss/ Reversal of impairments	15	660	-
Finance costs	16	37,181	16,607
Debt impairment	12	-	26,317
Repairs and maintenance		123	-
General Expenses	10	776,734	1,403,819
Total Expenditure		**2,015,129**	**1,550,639**
Loss on disposal of assets and liabilities		(7,157)	-
Surplus (deficit) for the year		**2,721,180**	**(62,626)**

The supplementary information presented does not form part of the annual financial statements and is unaudited

Appendix A
June 2011

Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2011

	Current year 2010 Act. Bal. Rand	Forecast # 1 2011 Bud. Amt Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
Revenue					
Grant from IDC	2,647,959	2,647,959	-	-	
Government grants	2,000,000	2,000,000	-	-	
Interest received - investment	95,507	-	95,507	-	Interest was not budgeted for initially and that interest income is higher due to the application of GRAP standards viz. Discounting of accounts payables.
	4,743,466	4,647,959	95,507	2.1	
Expenses					
Personnel	(1,147,738)	(873,085)	(274,653)	31.5	The CEO only started late with the organisation and not at the time when it was thought he would start
Depreciation	(51,069)	-	(51,069)	-	
Amortisation	(1,624)	-	(1,624)	-	Depreciation was not budgeted for.
Impairments	(660)	-	(660)	-	
Finance costs	(37,181)	-	(37,181)	-	Finance costs are different due to discounting of accounts payables that took longer to settle.
Debt impairment	-	-	-	-	
Repairs and maintenance - General	(123)	-	(123)	-	
General Expenses	(776,733)	(3,724,528)	2,947,795	(79.1)	The variance is a result of projects that where not implemented that were budgeted for. The agency is currently working on this projects and service providers were only appointed late in the year.
	(2,015,128)	(4,597,613)	2,582,485	(56.2)	
Other revenue and costs	(7,157)	-	(7,157)	-	
Net surplus/ (deficit) for the year	2,721,181	50,346	2,670,835	,305.0	